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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

TRADE POLICY

Note by the Central Policy Review Staff

Objectives

The general aim of promoting UK exports implies two important objectives:-

- (a) to get other countries to reduce their tariffs, or other trade barriers, which stop imports from the UK;
- (b) to avoid increasing the risk of spreading protectionism which will harm exporters and hence the UK economy (a third of whose output is exported).

2. Under (a), there are particularly strong grounds for Government action in cases where another country has a high tariff against UK exports of a given product, but itself exports sizeable quantities of the same product to the UK across a low tariff. Cars from Spain is the best known example of this "high tariff differential" problem, but there are others - eg shoes from Brazil.

Approach

3. Some progress may be made by using the Community and GATT machinery - for example to prevent excessively favourable treatment for Newly Industrialised Countries by the principle of "graduation". But progress is bound to be slow, and Ministers will want to consider the scope for unilateral action.

4. Each case is different, and the CPRS suggests judging each on several criteria:-

- (i) What would a tariff reduction be worth, in terms of increased exports? - relevant factors are the present volume of exports to this and other comparable countries, and what UK exporters pressing for a tariff reduction say they could achieve.

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(ii) What instruments are available to press for a reduction? - this is discussed in the paper by the Secretary of State for Trade (E(82)71); the CPRS believes the more informal steps are particularly worth examining - eg inter-industry arrangements, or persuading the firms concerned to source more of their sales from the UK.

(iii) If the other country does not agree to cut its tariff, what are the risks? - anything more than exhortation implies some threat to take action against that country's exports to the UK, and this threat needs to be sustainable (eg defensible in EC, not vulnerable to retaliation, and not damaging UK producers' costs).

4. As E(82)71 shows, there are constraints on unilateral UK action, and in world recession countries will not easily be persuaded to give up existing tariff protection. In that case the only way of making trade less unequal is to find ways of discouraging the relevant imports into the UK. If the objective is not simply to threaten action, as a means of getting the foreign tariff lowered, it may be possible to find less overt means of correcting the balance. Ministers considered the scope for such action on non-tariff barriers earlier in the year (E(82)6th meeting). Any action against imports has to be weighed against the risks of retaliation and increasing protection generally ((b) above).

Cars/Spain

5. Applying this approach to the specific case of cars from Spain, the CPRS believes that a fuller study should be made of the balance of advantage under the criteria suggested, but that the following steps in particular deserve further examination:-

(i) Overt action would be to persuade EC partners that unless the Spanish tariff on cars is brought down before accession, and if there is a surge of car imports from Spain into the UK, it would be right for the UK to take emergency unilateral action under Community rules. If there is a reasonable chance of EC acquiescence, then taking account of timing points (paragraph 6 of the Foreign and Commonwealth Secretary's minute of 22 October, circulated to E Committee), the UK would be in a stronger position to persuade Spain to reduce the tariff disparity, or failing this to take offsetting action itself.

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- (ii) The multi-national car firms (Ford and General Motors) might be persuaded to improve the balance of trade either by maintaining the proportion of UK-assembled as against Spanish-assembled cars sold in the UK, or by increasing the proportion of UK-produced components in Spanish-assembled cars.
- (iii) BL might be asked to consider enlarging its component exports to Spain by widening the range of vehicles assembled at its Santana plant (at present only Land Rovers) to other commercial vehicles and possibly cars.
- (iv) Apart from action on such matters as type approval (referred to in E(82)71), it would meet a complaint from customers more directly if the car firms were required to show clearly the country of origin (assembly) on each vehicle sold.

Conclusion

6. The CPRS accordingly suggests that the Secretary of State for Trade might be invited to make a fuller study of the particular case, with proposals for action, on lines proposed in paragraph 5; and to put forward a short list of other cases of flagrant high tariff differentials, reviewed under the same criteria (paragraph 3), again with proposals for action. This would fit in with the further exploration in the Community and GATT proposed in the conclusion of his paper.

Cabinet Office

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